

## 1960–1974 EFTA and the first steps towards the European Communities

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## 1960–1974 The European Free Trade Association (EFTA) and the first steps towards the European Communities

Following the most troubled phase in Portugal's post-war history and particularly the events surrounding the 1949 presidential elections, the Estado Novo (Salazar dictatorship) managed to establish internal peace and neutralise the opposition until virtually the end of the 1950s, when in 1957 General Humberto Delgado launched his 'independent candidacy' for the 1958 presidential elections. The discontent in connection with what had become the greatest challenge to Salazar's regime was rekindled, and the entire country anxiously watched events unfold. Delgado, protesting against a massive electoral fraud, was defeated at the polls and Américo Tomás was elected President of the Republic.

The country had changed, however. Widespread political unrest, public protests and opposition in general continued unabated at the turn of the decade. And it was not only domestic policy that was different.

In the late 1950s and in the early 1960s in particular, Portugal was also faced with new challenges to its involvement in European economic cooperation. This meant that important decisions had to be taken and subsequent strategies had to be defined; in other words, the country was forced to establish closer relations with Europe.

After resolving a number of uncertainties and overcoming various obstacles, and when the provisioning and foreign payments crises that arose so suddenly in the late 1940s had blown over, post-war Portugal at last experienced a process of economic and social development which, in terms of the principal growth rates, matched or even surpassed the prosperity that characterised the European economy as a whole in the following two decades.

The difficult process of transition from the war economy and everything it involved to peacetime and the Cold War — including the determination of strategies and projects for the country — had been accomplished.

From then on a cycle of growth and modernisation ensued that included structural changes, despite resistance from powerful social and political forces that continued to undermine the rate and scope of modernisation. The principal changes included the establishment of the platform for external economic cooperation and its impact on deregulating and stimulating trade in particular, which Portugal was also involved in and which it benefited from primarily through participation in the Marshall Plan, the Organisation for European Economic Cooperation (OEEC) and the European Payments Union (EPU).

From the post-war period in fact, mirroring international trends, Portugal experienced a surge in growth that continued until the early 1970s.

The State's new political and economic strategy, introduced in the aftermath of World War II in order to establish a coherent framework for the major economic policy goals set out in the then 'development plans', was vital to the significant changes in the Portuguese economy and fostered conditions that were to bring about a marked growth in the industrial sector, in line with general trends in European capitalism.

Overall, however, the strategy adopted in the 1950s, which sought economic growth through industrial expansion (based essentially on two stimuli: reserved markets and low-cost factors of production, namely labour and capital), and the structure of the model created to sustain that start-up proved to be inadequate and inefficient and ultimately had a negative impact on the country's development. This suggests that the project was conceived on the basis of dubious assumptions, as were the development principles underlying the new strategy.

All this is apparent in the relevant indicators: even though they had improved, our rates of development remained well below those in the rest of the industrialised West.

All these issues were broadly reflected in the most relevant event in the second half of the 1950s, the

repercussions of which were felt for much of the following decade: the second Congress of Portuguese Industry and the second Congress of Portuguese Economists, which simultaneously brought the political and economic elite together in Lisbon.

The Minister for the Presidency, Marcelo Caetano, surprised the opening session with a speech in which, after summarising the history of Portuguese industry, identifying its problems and highlighting its faults and weaknesses, he referred to the ‘processes of European integration’, giving centre stage to the markets and the need to let private agents play a more prominent role, <sup>(1)</sup> bypassing the traditional State control.

The conclusions of the Congress reflect most of the themes discussed, including the need not to lose sight of the changes arising out of European cooperation and integration. <sup>(2)</sup>

The fact is that after these Congresses, Portuguese private economic agents with interests in industry and the financial system largely imposed their views, some of which were eventually incorporated into the final version of the Second Development Plan (1959–1964).

In addition to plans and institutions, however, economic realities made their presence felt. The complex and pressing problem of the markets — that is, of opening them up — gained ground, and with the hesitancy of those who have to satisfy interests which are not always easy to reconcile, the Portuguese leaders struggled to maintain their grip on the most important aspects of European integration.

After several years of negotiations, Portugal formally joined EFTA on 4 January 1960, a date that represented the first manifestation of a process of opening up, which symbolised a victory for those who felt that development strategy no longer only — or even primarily — involved the metropolitan internal market: the import substitution policy, somewhat in breach of the Plan itself, gave way to procedures that prioritised exports.

In other words, in the early 1960s increased attention (albeit possibly contradictory and rather lukewarm) was paid to the external markets, where two major trends emerged: one that involved looking towards the colonies (building the ‘Portuguese single space’ or the ‘Portuguese common market’), and another leading to a deepening of European integration, in this case by membership of EFTA (consolidating the previous situation, since Europe was already our primary trading partner at the time).

### **Between EFTA and the Portuguese Economic Space**

While the Portuguese authorities fought unambiguously to join the European Free Trade Association, cautioning against the prospect of ‘being left on the sidelines’, it is unanimously accepted, both by those who were directly involved and by academics who have studied the issue, that it was ‘by a stroke of luck’, in the words of our senior negotiator, Ambassador Rui Teixeira Guerra, that Portugal managed to join the signatory countries of the Stockholm Convention.

Membership of EFTA was all the more attractive, since the form this free trade area was to adopt was consistent with the policy and principles underlying Portugal’s stance on external cooperation.

By joining EFTA, Portugal would avoid exclusion from European integration. The commitments involved were purely economic and commercial, questions concerning the regime or the political system did not arise — as they did in relation to the European Economic Community (EEC) — and problems associated to the African colonies were even less evident, ‘given the complete customs autonomy that governed relations with third countries’.

Furthermore, the relative underdevelopment of Portuguese industry compared to the other member countries was safeguarded by the acceptance of a range of exceptions laid down in Annex G to the Stockholm Convention. This allowed Portugal to remove tariffs much more slowly (over a period of 20 years — twice the time granted to other members). In particular, this Annex expressly authorised Portugal to erect customs barriers when new industries had to be protected.

Objectively, Portuguese membership of EFTA was a natural consequence of its presence from the very outset in the OEEC.

Portugal's European option was not only involuntary but was in fact never really presented as a choice between EFTA or the EEC; the alternative, if it was ever raised, was put in terms of keeping or losing the European market. <sup>(3)</sup>

The backdrop to the Portuguese option was an economic and utilitarian view of European integration. The fact that Portugal was increasingly dependent on Europe in commercial terms (over two thirds of our foreign trade involved countries in the OEEC's European region) <sup>(4)</sup> did not give rise to major reservations either, particularly since its overseas policy, even under the new structure it was to be given in the mean time by the institutionalisation of the Portuguese Economic Space, could go off track at any time and was permanently on the verge of foundering as political and economic problems became unexpectedly more serious.

All in all, Portugal's participation in EFTA is regarded as highly satisfactory at virtually all levels, and is in fact considered to be one of the most compelling reasons for the rapid growth and modernisation of the Portuguese economy during that period.

It is well known that Portugal was not only the country that maintained the highest level of customs protection among EFTA countries (two and a half times greater than the average for the other partners), but it was also the one for which the 'EFTA effect' had the greatest impact on trade: Portuguese foreign trade increased by 52 % in exports and 40 % in imports, while the increase in other member countries did not exceed 30 % in either sector. Further integration marked the end of a period in which ideas of independence predominated, resulting in a more open approach to international trade and foreign capital flows, an increase in the competitiveness of some of the major production sectors, and an acceleration in the concentration of capital that was to lead to the establishment of large economic and financial groups.

It was also in 1960, with the institutionalisation of the 'Portuguese Economic Space' (involving mainland Portugal and the colonies), that the colonial war began in Angola. The way the project was presented publicly made it appear to be a sanctuary for the salvation of the Empire, the only alternative to safeguard it from the forces that were fighting, both internally and externally, to dismantle it.

### **Rapprochement with the EEC**

With Marcelo Caetano in power from 1968, and against the background of what he himself called 'renewal in continuity', the new terms in which further modernisation of the Portuguese economy and industry was raised were effectively altered (albeit temporarily and without much success).

Expectations were ambitious and were based on a comprehensive range of reforms which, at economic level in particular, were to bring about the country's modernisation, improvements in the standard of living and lasting economic development.

The Caetano regime's principal economic innovations, with legacies inherited from the past being particularly significant, were very soon to have an effect in the area of economic policy, in the reliance placed on planning, in a drive to dilute internal and external protectionism and in an opening up to the outside world. Efforts were also made to boost foreign investment, combining it with a commitment to rapprochement with Europe that was reflected in deeper involvement in economic cooperation, paving the way for the signature of the free trade agreement with the EEC in 1972. Stress was laid on renewing Portugal's industrial strategy, with two important new features standing out: the creation of the Sines complex and ratification of the Industrial Development Act.

Externally, particularly in connection with rapprochement with Europe, everything appeared to fall into place for the Portuguese authorities when the United Kingdom applied to join the Common Market on 9 August 1961, together with the Scandinavian countries.

Some hesitation ensued at this point. The carefully calculated risks were considerable: the spectre of isolation within Europe rose once again. Reluctantly yet with the necessary flexibility, Ambassador Calvet de Magalhães delivered a letter to the President of the EEC on 18 May 1962, in which the Prime Minister asked for negotiations to be opened between Portugal and the Community with a view to defining the terms of the cooperation the Portuguese Government wished to establish with the Common Market countries.

Without setting out claims or reservations, Salazar adopted a vague formula that allowed him to avoid major pitfalls at the time, not least because of the existence of Great Britain and the Commonwealth, whose problems in joining the EEC were bound to suggest potential solutions that could be applied to the Portuguese Overseas Territories.

Fortunately for the Portuguese leaders, in his famous declaration of 13 January 1963, President de Gaulle brought matters to a complete halt by unequivocally vetoing Britain's membership of the Community, which meant that preparations for negotiations with EFTA's other members were naturally suspended as a result.

The 'problem' did not arise again until almost a decade later, the parties involved being different when the UK's application to join the European Communities was finally accepted in 1970.

Portugal understood once again that it could not remain on the sidelines, and prepared for the negotiations which, having really begun in December 1971, were to lead to the signing of the Portugal-EEC Free Trade Agreement and the Portugal-ECSC Agreement on trade in iron and steel products on 22 July 1972.

This decision, linked essentially to appraising the commercial constraints, ran counter to positions advocated by the regime's most conservative wing, which drew attention to the dangers of 'political contagion' and the risk of undermining the 'overseas commitment'.

The Portuguese Government, then led by Marcelo Caetano, in fact took a more positive stance on the 'European way', becoming more affirmative on European issues in the framework of a real (albeit modest) institutional link to the EEC. See, for example, the Ministerial Decree of 23 March 1970: 'The present situation and future possibilities as regards processes for Portuguese participation in initiatives that seek European economic integration must be studied'.<sup>(5)</sup>

The Comissão de Estudos sobre a Integração Económica Europeia (Committee for the Study of European Economic Integration) was formed in that light and was made up of some of the most influential Portuguese diplomats who had been involved in international negotiations since the days of the OEEC, plus some of the most outstanding Portuguese economists of the time.<sup>(6)</sup>

The Committee was chaired by the very experienced Rui Teixeira Guerra, who always argued, with cautious foresight, that negotiations should be conducted in such a way as to exclude any possibility of compromising future accession. The Committee's report concluded by strongly recommending a partnership with the Community, suggesting, *inter alia*, that 'an agreement with the Community involving the Portuguese Overseas Territories was not viable, the mere raising of the issue at this stage possibly giving rise to reactions of sufficient intensity as to jeopardise the already limited chances of success of negotiations concerning the mainland Portugal'.

The Portuguese Economic Space, moreover, appeared to be doomed to failure from the outset, and not only for the obvious reasons which the authorities themselves had always acknowledged and had vainly sought to rectify: over two thirds of Portuguese foreign trade was still transacted with European countries; the reallocation of economic activities, a cornerstone of the project, never came about (never even going beyond the developmental stage); the question of inter-territorial payments, particularly in the second half of the decade, not only became a structural problem but in fact one of the most important government concerns: in essence it was a consequence of the different levels of development in the various territories, and of the climate of insecurity prevailing in them as a result of the wars of liberation.

The ‘golden age’ of world capitalism was reflected to some extent in the Portuguese 1960s: the rate of growth of GDP stood at an annual average of around 7 %, while manufacturing industry exceeded 9 %.

This development, however, although positive, took place within a framework of restrictions that had a significant influence on the assessment to be made. Failure to establish the Portuguese Single Market, colonial war, the rise in wages fuelled by increasing emigration, the slow processing of ‘urgent’ reforms, the weakening of EFTA (with the accession of the United Kingdom — our main trading partner — and Denmark and Ireland to the EEC), and finally the October 1973 oil crisis and the consequent increase in the international prices of energy-producing raw materials made the effort expended ineffective, condemning to failure the successive economic and industrial policy models that were being constructed.

In 1972 and 1973 the situation deteriorated dramatically, and in practice the conditions for growth collapsed: the external accounts were heavily negative, inflation rose, and the artificially developed capitals market foundered with the collapse of the stock exchange (in October/November 1973).

Since confidence had collapsed and productive investment had virtually evaporated, the system was unable to function because the balances painstakingly assembled and negotiated over decades had finally been called into question.

When the external conditions changed, the internal weaknesses rapidly came into sharp relief. Thus while initially the international oil crisis and then the 25 April Revolution slowed the existing momentum, it was also the Revolution that drew a veil over the most dramatic dimension of the economic and financial disruption, opening the way for alternatives which the exhausted Caetano regime no longer had the capacity to put in place.

(1) Marcelo Caetano, ‘Discurso inaugural dos Congressos dos Economistas Portugueses e da Indústria Portuguesa’, in AAVV, *Discursos, Conclusões e Estudos Sobre a Indústria Portuguesa, II Congresso da Indústria Portuguesa*, Associação Industrial Portuguesa, Lisbon, 1957, p. 15.

(2) Cf. ‘Conclusões Gerais’ in AAVV, *Discursos, Conclusões e Estudos Sobre a Indústria Portuguesa, II Congresso da Indústria Portuguesa*, Associação Industrial Portuguesa, Lisbon, 1957, pp. 17 to 25.

(3) Cf. Alberto Pinheiro Xavier, *Portugal e a Integração Europeia*, Livraria Almedina, Coimbra, 1970, pp. 116 to 121, especially p. 113.

(4) Cf. L. M. Teixeira Pinto, ‘Portugal e a integração económica europeia’, *II Congresso da Indústria Portuguesa, Comunicação no 122*, Associação Industrial Portuguesa, Lisbon, 1957, p. 35.

(5) *Diário do Governo*, No 69, II Série, 23 March 1970.

(6) The Committee was made up of Rui Teixeira Guerra, José Calvet de Magalhães, Alberto Nascimento Regueira, Álvaro Ramos Pereira, Carlos Lourenço, Ernesto Ferverença da Silva, Eugénio Castro Caldas, Ilídio Barbosa, João Cravinho, José da Silva Lopes, Luís Figueira, Rui dos Santos Martins and João Vieira de Castro.